



REDACTED – FOR PUBLIC INSPECTION

VIA ECFS

June 28, 2017

Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Room TW-A325
Washington, DC 20554

RE: **Farmers Mutual Telephone Company, SAC 472221**
Submission of FCC Form 481 Annual Report
WC Docket No. 14-58 – ETC Annual Reports and Certifications

Dear Ms. Dortch:

In accordance with the annual reporting requirements of 47 C.F.R. §§54.313 and 54.422, Farmers Mutual Telephone Company (“the Company”), Study Area Code 472221, hereby files its FCC Form 481 – Carrier Annual Reporting Data Collection Form. *The version of the Company’s FCC Form 481 submitted via the FCC’s Electronic Comment Filing System (ECFS) is a redacted version of the filing that contains no confidential information.*

Section 3005 of FCC Form 481 requires privately-held rate-of-return carriers receiving high cost support to attach a full and complete annual report of the company’s financial condition and operations pursuant to 47 C.F.R. §54.313(f)(2). Farmers Mutual Telephone Company, by its authorized representative, hereby seeks confidential treatment of its financial annual report pursuant to the March 22, 2016 *Protective Order* in WC Docket Nos. 10-90 and 14-58.¹ The *Protective Order* specifically covers the information required by 47 C.F.R. §54.313(f)(2).

Farmers Mutual Telephone Company is providing to the Office of the Secretary, under seal, this cover letter and the FCC Form 481 filing which includes the

T (972) 387-4300
F (972) 960-2810

8750 N. Central Expressway
Suite 300
Dallas, TX 75231

Assurance, tax, and consulting offered through
Moss Adams LLP. Wealth management offered through
Moss Adams Wealth Advisors LLC. Investment banking
offered through Moss Adams Capital LLC.

¹ *Connect America Fund, ETC Annual Reports and Certifications*, WC Docket Nos. 10-90 and 14-58, Protective Order, 31 FCC Rcd 2089 (2016).

confidential information that is being requested to be withheld from public inspection.

Each page of the Company's financial annual report and the financial summary page on the FCC Form 481 bear the legend, "CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER BEFORE THE FEDERAL COMMUNICATIONS COMMISSION."

The confidential information has also been submitted to the Universal Service Administrative Company through its E-File system as attachments to the FCC Form 481.

In the filing submitted via the ECFS, all pages containing confidential information bear the legend "REDACTED – FOR PUBLIC INSPECTION."

This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions except for the confidentiality markings.

The FCC Form 481 has also been filed with the relevant state commissions and Tribal governments, as appropriate.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tym Rutkowski".

Tym Rutkowski
Authorized Representative for
Farmers Mutual Telephone Company

TR/jr

cc: Daniel Greig, Farmers Mutual Telephone Company

**FCC Form 481 - Carrier Annual Reporting
Data Collection Form**FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name: Person USAC should contact with questions about this data	Krista Byrd
<035>	Contact Telephone Number: Number of the person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address: Email of the person identified in data line <030>	krista@fmtc.com
	Form Type	54.313 and 54.422

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmc.com

No

Page 2

**(300) Unfulfilled Service Request
Data Collection Form**FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

<300> Unfulfilled service request (voice)

0

<310> Detail on attempts (voice)

Name of Attached Document

<320> Unfulfilled service request (broadband)

0

<330> Detail on attempts (broadband)

Name of Attached Document

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com
<400>	Select from the drop-down list to indicate how you would like to report voice complaints (zero or greater) for voice telephony service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize. Offered only fixed voice	
<410>	Complaints per 1000 customers for fixed voice	0 . 0
<420>	Complaints per 1000 customers for mobile voice	
<430>	Select from the drop-down list to indicate how you would like to report end-user customer complaints (zero or greater) for broadband service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize. Offered only fixed broadband	
<440>	Complaints per 1000 customers for fixed broadband	0 . 0
<450>	Complaints per 1000 customers for mobile broadband	

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com
<500>	Certify compliance with applicable service quality standards and consumer protection rules	Yes
472221ID510 .pdf		
<510>	Descriptive document for Service Quality Standards & Consumer Protection Rules Compliance	
<515>	Certify compliance with applicable minimum service standards	

(600) Functionality in Emergency Situations Data Collection Form		FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
---	--	--

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com
<600>	Certify compliance regarding ability to function in emergency situations	Yes
<610>	Descriptive document for Functionality in Emergency Situations	472221ID610.pdf

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

OMB Control No. 3060-0986/OMB Control No. 3060-0819

OMB Control No. 3060-0986/OMB Control No. 3060-0819

<039> Contact Email Address - Email Address of person identified in data line <030> krista@fmtc.com

1/1/2017

-- See attached worksheet

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

[illegible]

**(800) Operating Companies
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL, TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com
<810>	Reporting Carrier	Farmers Mutual Telephone Company
<811>	Holding Company	Not Applicable
<812>	Operating Company	Farmers Mutual Telephone Company

[illegible]

**(900) Tribal Lands Reporting
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

<900> Does the filing entity offer tribal land services? (Y/N) No

<910> Tribal Land(s) on which ETC Serves

<920> Tribal Government Engagement Obligation

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached PDF, on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

Select Yes or No or Not Applicable

**(1000) Voice and Broadband Service Rate Comparability
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

<1000> Voice services rate comparability certification Yes

<1010> Attach detailed description for voice services rate comparability compliance 472221ID1010.pdf

Name of Attached Document

<1020> Broadband comparability certification Yes - Pricing is no more than the most recent applicable benchmark announced by the Wireline Competition Bureau

<1030> Attach detailed description for broadband comparability compliance 472221ID1030.pdf

Name of Attached Document

**(1100) No Terrestrial Backhaul Reporting
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

<1100> Certify whether terrestrial backhaul options exist (Y/N)

Yes

<1130> Please select the appropriate response (Yes, No, Not Applicable) to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(g).

(1200) Terms and Condition for Lifeline Customers
Lifeline
Data Collection Form

FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

472221ID1210.pdf

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

Name of Attached Document

<1220> Link to Public Website

HTTP

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- | | | |
|--------|---|-------------------------------------|
| <1221> | Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, | <input checked="" type="checkbox"/> |
| <1222> | Details on the number of minutes provided as part of the plan, | <input checked="" type="checkbox"/> |
| <1223> | Additional charges for toll calls, and rates for each such plan. | <input checked="" type="checkbox"/> |

(2005) Price Cap Carrier Additional Documentation

FCC Form 481

Data Collection Form

OMB Control No. 3060-0986/OMB Control No. 3060-0819

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

Select the appropriate responses below (Yes, No, Not Applicable) to note compliance as a recipient of Incremental High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e). The information reported on this form and in the documents attached below is accurate.

Incremental Connect America Phase I reporting

- <2011> 3rd Year Certification 47 CFR §54.313(b)(1)(ii) - Note that for the July 2017 certification, this applies to Round 2 recipients of Incremental Support.
- <2022> Recipient certifies, representing year three after filing a notice of acceptance of funding pursuant to 54.312(c), that the locations in question are not receiving support under the Broadband Initiatives Program or the Broadband Technology Opportunities Program for projects that will provide broadband with speeds of at least 4 Mbps/1Mbps - 54.313(b)(2)(i). Round 2 recipients only.
- <2023> The attachment on line 2024 includes a statement of the total amount of capital funding expended in the previous year in meeting Connect America Phase I deployment obligations, accompanied by a list of census blocks indicating where funding was spent. This covers year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2024A> Round 2 Recipient of Incremental Support?
- <2024B> Attach list of census blocks indicating where funding was spent in year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2025A> Round 2 Recipient of Incremental Support?
- <2025B> Attach geocoded Information for Phase I milestone reports (Round 2 for year three) - Connect America Fund , WC Docket 10-90, Report and Order, FCC 13-73, paragraph 35 (May 22, 2013).
- <2015> 2016 and future Frozen Support Certification 47 CFR § 54.313(c)(4)

Name of Attached Document Listing
Required Information

Name of Attached Document Listing
Required Information

(2005) Price Cap Carrier Additional Documentation

FCC Form 481

Data Collection Form

OMB Control No. 3060-0986/OMB Control No. 3060-0819

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

July 2013

Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}

<2016> Certification support used to build broadband

Connect America Phase II Reporting {47 CFR § 54.313(e)}

<2017A> Connect America Fund Phase II recipient?

<2017C> Total amount of Phase II support, if any, the price cap carrier used for capital expenditures in 2016.

<2018> Attach the number, names, and addresses of community anchor institutions to which the carrier newly began providing access to broadband service in the preceding calendar year - 54.313(e)(1)(ii)(A)

Name of Attached Document Listing
Required Information

<2019> Recipient certifies that it bid on category one telecommunications and Internet access services in response to all FCC Form 470 postings seeking broadband service that meets the connectivity targets for the schools and libraries universal service support program for eligible schools and libraries located within any area in a census block where the carrier is receiving Phase II model-based support, and that such bids were at rates reasonably comparable to rates charged to eligible schools and libraries in urban areas for comparable offerings - 54.313(e)(1)(ii)(C)

(3005) Rate Of Return Carrier Additional Documentation
Data Collection Form

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

Select from the drop down menu or check the boxes below to note compliance with 54.313(f)(1). Privately held carriers must ensure compliance with the financial reporting requirements set forth in 47 CFR 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

(3009)	Progress Report on 5 Year Plan Carrier certifies to 54.313(f)(1)(iii)		
		Yes - Attach Certification	
(3010A)	Certification of Public Interest Obligations {47 CFR § 54.313(f)(1)(i)}		
(3010B)	Please Provide Attachment	Name of Attached Document Listing Required Information	472221ID3010.pdf
(3012A)	Community Anchor Institutions {47 CFR § 54.313(f)(1)(ii)}	No - No New Community Anchors	
(3012B)	Please Provide Attachment	Name of Attached Document Listing Required Information	
(3013)	Is your company a Privately Held ROR Carrier {47 CFR § 54.313(f)(2)}	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
(3014)	If yes, does your company file the RUS annual report	(Yes/No)	<input type="radio"/> <input checked="" type="radio"/>
Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:			
(3015)	Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)	<input type="checkbox"/>	
(3016)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows	<input type="checkbox"/>	
(3017)	If the response is yes on line 3014, attach your company's RUS annual report and all required documentation	Name of Attached Document Listing Required Information	
(3018)	If the response is no on line 3014, is your company audited?	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
If the response is yes on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3019)	Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers	<input checked="" type="checkbox"/>	
(3020)	Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows	<input checked="" type="checkbox"/>	
(3021)	Management letter and/or audit opinion issued by the independent certified public accountant that performed the company's financial audit.	<input checked="" type="checkbox"/>	
If the response is no on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3022)	Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers	<input type="checkbox"/>	
(3023)	Underlying information subjected to a review by an independent certified public accountant	<input type="checkbox"/>	
(3024)	Underlying information subjected to an officer certification.	<input type="checkbox"/>	
(3025)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows	<input type="checkbox"/>	
(3026)	Attach the worksheet listing required information	Name of Attached Document Listing Required Information	472221ID3026.pdf

(3005) Rate Of Return Carrier Additional Documentation (Continued)		FCC Form 481
Data Collection Form		OMB Control No. 3060-0986/OMB Control No. 3060-0819
		July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmmc.com

Financial Data Summary

- (3027) Revenue
- (3028) Operating Expenses
- (3029) Net Income
- (3030) Telephone Plant In Service(TPIS)
- (3031) Total Assets
- (3032) Total Debt
- (3033) Total Equity
- (3034) Dividends



<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

4005 Rural Broadband Experiment

Authorized Rural Broadband Experiment (RBE) recipients must address the certification for public interest obligations, provide a list of newly served community anchor institutions, and provide a list of locations where broadband has been deployed.

Public Interest Obligations – FCC 14-98 (paragraphs 26-29, 78)

Please address Line 4001 regarding compliance with the Commission’s public interest obligations. All RBE participants must provide a response to Line 4001.

4001. Recipient certifies that it is offering broadband to the identified locations meeting the requisite public interest obligations consistent with the category for which they were selected, including broadband speed, latency, usage capacity, and rates that are reasonably comparable to rates for comparable offerings in urban areas?

Community Anchor Institutions – FCC 14-98 (paragraph 79)

4003a. RBE participants must provide the number, names, and addresses of community anchor institutions to which they newly deployed broadband service in the preceding calendar year. On this line, please respond (yes – attach new community anchors, no – no new anchors) to indicate whether this list will be provided.

If yes to 4003A, please provide a response for 4003B.

4003b. Provide the number, names and addresses of community anchor institutions to which the recipient newly began providing access to broadband service in the preceding calendar year.	Name of Attached Document Listing Required Information	<hr/>
---	--	-------

Broadband Deployment Locations – FCC 14-98 (paragraph 80)

4004a. Attach a list of geocoded locations to which broadband has been deployed as of the June 1st immediately preceding the July 1st filing deadline for the FCC Form 481.	Name of Attached Document Listing Required Information	<hr/>
--	--	-------

4004b. Attach evidence demonstrating that the recipient is meeting the relevant public service obligations for the identified locations. Materials must at least detail the pricing, offered broadband speed and data usage allowances available in the relevant geographic area.	Name of Attached Document Listing Required Information	<hr/>
--	--	-------

**Certification - Reporting Carrier
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

<010>	Study Area Code	472221
<015>	Study Area Name	FARMERS MUTUAL TEL
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	
Signature of Authorized Officer:	Date
Printed name of Authorized Officer:	
Title or position of Authorized Officer:	
Telephone number of Authorized Officer:	
Study Area Code of Reporting Carrier:	Filing Due Date for this form:
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Certification - Agent / Carrier Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
---	--

<010> Study Area Code	472221
<015> Study Area Name	FARMERS MUTUAL TEL
<020> Program Year	2018
<030> Contact Name - Person USAC should contact regarding this data	Krista Byrd
<035> Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	krista@fmtc.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) <u>Moss Adams LLP</u> is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent:	Moss Adams LLP
Name of Reporting Carrier:	FARMERS MUTUAL TEL
Signature of Authorized Officer:	CERTIFIED ONLINE Date: 06/26/2017
Printed name of Authorized Officer:	Daniel Greig
Title or position of Authorized Officer:	General Manager
Telephone number of Authorized Officer:	2084523100 ext.
Study Area Code of Reporting Carrier:	472221 Filing Due Date for this form: 07/03/2017
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier:	FARMERS MUTUAL TEL
Name of Authorized Agent Firm:	Moss Adams LLP
Signature of Authorized Agent or Employee of Agent:	CERTIFIED ONLINE Date: 06/26/2017
Name of Authorized Agent Employee:	Tym Rutkowski
Title or position of Authorized Agent or Employee of Agent	Senior Manager
Telephone number of Authorized Agent or Employee of Agent:	5097770137 ext.
Study Area Code of Reporting Carrier:	472221 Filing Due Date for this form: 07/03/2017
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Attachments

LINE 510 - SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION RULES COMPLIANCE

Farmers Mutual Telephone Company (“the Company”) complies with applicable service quality standards and consumer protection rules for its voice and broadband services.

The rates, terms, and conditions under which the Company operates are outlined in its local exchange tariff, which is approved by the Idaho Public Utilities Commission (“Idaho PUC”). The tariff contains provisions regarding the Company’s customer service and protection practices.

Service quality standards for voice service are established by the Idaho PUC. The Company consistently meets or exceeds those standards and provides reports to the Idaho PUC, in accordance with the Idaho PUC’s rules.

With regard to broadband service, the Company provisions its network and equipment to ensure that its customers can enjoy the speeds to which they subscribe. However, Internet speeds generally result from a “best effort” service and are dependent upon a number of variables, many of which are outside the control of the Company. The Company also complies with the FCC’s Open Internet rules, 47 C.F.R. §§8.3-8.11. These rules prohibit blocking, throttling, and paid prioritization, and also require the Company to publicly disclose information regarding its network management practices, performance, and the commercial terms of its broadband services.

The Company complies with any and all consumer protection obligations under state law.

The Company also complies with the following consumer best practices: (1) the Company discloses its rates and terms of service to customers; (2) the Company provides specific disclosures in its advertising; (3) the Company separately identifies carrier charges from taxes on its billing statements; (4) the Company provides ready access to customer service; (5) the Company promptly responds to consumer inquiries and complaints received from government agencies; and (6) the Company abides by policies for protection of consumer privacy.

Finally, the Company has a policy and established operating procedures that comply with the FCC’s Customer Proprietary Network Information (CPNI) rules (47 C.F.R. §§64.2001-64.2011).

LINE 610 - ABILITY TO FUNCTION IN EMERGENCY SITUATIONS

Farmers Mutual Telephone Company (“the Company”) is able to remain functional in emergency situations for both voice and broadband service. The Company has a reasonable amount of backup power to ensure functionality without an external power source. Backup power is provided to the central office by use of a fixed generator and batteries that provide it with eight hours of emergency power. In addition, the Company’s field electronics have eight hours of backup power via generators and batteries.

The Company has Synchronous Optical Network (“SONET”) technology deployed in its core fiber optic network that is self-healing and will automatically reroute traffic around damaged facilities should a fiber cut occur. The Company has sufficient spare cards for its fiber optic network to provide almost instantaneous replacements should there be a card failure in the core network and proper staff in place to repair any fiber cuts in a timely manner. In addition, the Company has diverse routing to adjacent telecommunications providers and telephone exchanges that enable the Company to reroute traffic in emergency situations.

Lastly, the Company is prepared and capable of managing traffic spikes resulting from emergency situations and has sufficient switching capabilities to handle such situations. The Company has also developed and trained its staff on network preparedness plans for emergency situations.

(700) Price Offerings including Voice Rate Data Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
---	--

July 2013

<701>	Residential Local Service Charge Effective Date	1/1/2017
<702>	Single State-wide Residential Local Service Charge	

[illegible]

(710) Broadband Price Offerings Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
---	--

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<015>	Study Area Name	FARMERS MUTUAL TEL.
-------	-----------------	---------------------

<020>	Program Year	2018
-------	--------------	------

<030>	Contact Name - Person USAC should contact regarding this data	Krista Byrd
-------	---	-------------

<035>	Contact Telephone Number - Number of person identified in data line <030>	2084522000 ext.
-------	---	-----------------

<039>	Contact Email Address - Email Address of person identified in data line <030>	krista@fmtg.com
-------	---	-----------------

[illegible]

LINE 1010 – VOICE SERVICES RATE COMPARABILITY

The Wireline Competition Bureau’s 2017 reasonable comparability benchmark for voice services is \$49.51, which includes the federal subscriber line charge (“SLC”).¹

In the exchanges served by Farmers Mutual Telephone Company (“the Company”), the highest single-line residential local rate in effect as of January 1, 2017 was \$19.75. When the federal SLC (\$6.50) is included, the total rate was \$26.25. Therefore, the Cooperative’s pricing of fixed voice services is less than the reasonable comparability benchmark of \$49.51.

¹ *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

LINE 1030 – BROADBAND SERVICES RATE COMPARABILITY

As of January 1, 2017, Farmers Mutual Telephone Company was charging a residential rate of \$45 for broadband providing 10 Mbps download, 1 Mbps upload, and an unlimited usage allowance. This rate is lower than \$77.98, which is the 2017 reasonable comparability benchmark for the same offering established by the Wireline Competition Bureau.¹

¹ *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

LINE 1210 – TERMS & CONDITIONS OF VOICE TELEPHONY LIFELINE PLANS

Residential customers of Farmers Mutual Telephone Company (“the Company”) who qualify for the Lifeline Program receive a discount of \$11.75 (\$9.25 federal discount + \$2.50 state discount) on local voice telephony service.

In the Company’s NuAcre exchange, the Lifeline single-line residential rate, including any mandatory extended area service charge and the federal subscriber line charge (“SLC”), is \$14.50 (\$26.25 standard rate - \$11.75 discount). In the Company’s Fruitland exchange, the Lifeline single-line residential rate, including the federal SLC, is \$12.75 (\$24.50 standard rate - \$11.75 discount).

All single-line residential customers, including Lifeline customers, have an unlimited number of minutes for calls made within their local calling area.

Toll charges for calls outside of the local calling area are determined by the long distance carrier of the customer’s choosing. Customers may elect to subscribe to toll blocking at no charge.

The Company does not disconnect the service of Lifeline subscribers for the non-payment of toll charges. However, the Company reserves the right to implement toll blocking, at no charge, if the customer incurs a significant balance of unpaid toll bills.

Lifeline Program reductions do not apply to additional services such as custom calling features. Lifeline customers may subscribe to these services, where available, at the same rates offered to other customers.

Additional information regarding the terms and conditions of voice telephony Lifeline plans can be found at: <https://online.fmtc.com/local-telephone-service/lifeline-low-income-support/>.

LINE 3010 – CERTIFICATION OF PUBLIC INTEREST OBLIGATIONS

Farmers Mutual Telephone Company (“the Company”) hereby certifies that the Company has taken reasonable steps to provide upon reasonable request broadband service at actual speeds of at least 10 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas, and that requests for such service were met within a reasonable amount of time.

FARMERS MUTUAL TELEPHONE COMPANY

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2016 and 2015



**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO
December 31, 2016 and 2015**

Contents

	<u>Page</u>
Independent Auditor's Report.....	1 - 2
Consolidated Financial Statements:	
Consolidated Balance Sheets.....	3 - 4
Consolidated Statements of Operations	5
Consolidated Statements of Members' Equity.....	6 - 7
Consolidated Statements of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9 - 19

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Farmers Mutual Telephone Company and Subsidiary
Fruitland, Idaho

We have audited the accompanying consolidated financial statements of Farmers Mutual Telephone Company (an Idaho corporation) and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farmers Mutual Telephone Company and its subsidiary as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2015 consolidated financial statements were audited by other auditors and their report thereon, dated April 04, 2016, expressed an unmodified opinion.

BKD, LLP

Madison, Wisconsin
April 7, 2017

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents		
Accounts receivable:		
Due from customers		
Interexchange carriers		
Other		
Current portion of notes receivable		
Materials and supplies at average cost		
Inventories at average cost, less allowance of \$15,000		
Prepaid income taxes		
Other prepayments		
OTHER NONCURRENT ASSETS		
Investments		
Long term cash investment		
Notes receivable, less current portion		
Deferred income taxes		
Deferred charges		
PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service		
Wireless plant in service		
Other property		
Less accumulated depreciation		
Plant under construction		
TOTAL ASSETS		

See Notes to Consolidated Financial Statements

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt		
Accounts payable:		
Interexchange carriers		
Other		
Advance billing		
Accrued income taxes		
Accrued taxes		
Other current liabilities		
 LONG-TERM DEBT, LESS CURRENT PORTION		
 OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Deferred investment tax credit		
 MEMBERS' EQUITY		
Memberships		
Patronage capital assignable		
Unallocated margins		
Patronage capital assigned		
Unclaimed capital credit refunds		
Retained earnings (deficit)		
 TOTAL LIABILITIES AND MEMBERS' EQUITY		

See Notes to Consolidated Financial Statements

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2016 and 2015**

	2016	2015
OPERATING REVENUES		
Local network services		
Network access services		
Long distance services		
Internet services		
Wireless services		
Security services		
Other nonregulated services		
Gain on sale of equipment		
Miscellaneous		
OPERATING EXPENSES		
Cost of long distance services		
Cost of internet services		
Cost of wireless services		
Cost of security services		
Cost of other nonregulated services		
Plant specific operations		
Plant nonspecific operations		
Loss on sale of equipment		
Depreciation and amortization		
Customer operations		
Corporate operations		
General taxes		
OPERATING MARGINS		
OTHER INCOME (EXPENSE)		
Interest and dividend income		
Interest during construction		
Interest expense		
Other, net		
MARGINS BEFORE INCOME TAXES		
INCOME TAXES		
NET MARGINS		

See Notes to Consolidated Financial Statements

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**STATEMENTS OF MEMBERS' EQUITY
Years ended December 31, 2016 and 2015**

	<u>Memberships</u>	<u>Patronage Capital Assignable</u>	<u>Patronage Capital Assigned</u>	<u>Unclaimed Capital Credit Refunds</u>
Balance at December 31, 2014				
Net margins				
Net memberships issued				
Estate retirements				
Refunds of capital credits				
Unclaimed capital credit refunds				
Allocation of margins				
Balance at December 31, 2015				
Net margins				
Net memberships issued				
Estate retirements				
Refunds of capital credits				
Unclaimed capital credit refunds				
Permanent equity conversion				
Allocation of margins				
Balance at December 31, 2016				

See Notes to Consolidated Financial Statements

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**STATEMENTS OF MEMBERS' EQUITY
Years ended December 31, 2016 and 2015**

<u>Unallocated Margins</u>	<u>Retained Earnings (Deficit)</u>	<u>Total Members' Equity</u>
		

See Notes to Consolidated Financial Statements

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015**

	2016	2015
OPERATING ACTIVITIES		
Net margins		
Adjustments to reconcile net margins		
to net cash provided by operating activities:		
Depreciation and amortization		
Deferred income taxes		
Deferral/amortization of investment tax credits		
Patronage in business conducted with cooperatives		
Patronage distributions received from business conducted with cooperatives		
Realized (gain) loss on sale of property		
Interest during construction		
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable		
Materials and supplies and inventory		
Prepayments		
Deferred charges		
Increase (Decrease) in:		
Accounts payable		
Accrued taxes		
Advance billings		
Other current liabilities		
Net cash provided by operating activities		
INVESTING ACTIVITIES		
Capital expenditures		
Purchase of long-term cash investments		
Collections of notes receivable		
Salvage, net of cost of removing plant		
Net cash used in investing activities		
FINANCING ACTIVITIES		
Proceeds from long-term borrowing		
Repayment of long-term debt		
Patronage capital retired		
Memberships, net		
Net cash provided by (used in) financing activities		
Net Decrease in Cash and Cash Equivalents		
Cash and Cash Equivalents at Beginning of Year		
Cash and Cash Equivalents at End of Year		

See Notes to Consolidated Financial Statements

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Farmers Mutual Telephone Company and subsidiary (herein referred to as "the Company") are providers of telecommunications exchange and local access services, long distance, internet, and wireless services, in a service area located primarily in western Idaho and eastern Oregon.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through April 7, 2017, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC).

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company, Farmers Mutual Telephone Company, and its 100%-owned subsidiary, Farmers Mutual Telecom, Inc. All material intercompany transactions have been eliminated in consolidation.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. As a result, the Company determined an allowance for doubtful accounts was not necessary for the years ended December 31, 2016 and 2015.

Inventories

Inventory is stated at the lower of cost or market with cost determined by the average cost method. Inventory consists primarily of wireless mobile telephone equipment and internet equipment that is purchased by the Company primarily for sale to customers.

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Marketable equity securities bought and held principally for selling in the near future are classified as trading securities and carried at fair value. Unrealized holding gains and losses on trading securities are reported in earnings. Marketable securities classified as available-for-sale are carried at fair value with unrealized holding gains and losses recorded as a separate component of members' equity. Debt securities for which the Company has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The Company uses the FIFO method of computing realized gains and losses.

Nonmarketable equity investments over which the Company has significant influence are reflected on the equity method. Other nonmarketable equity investments are stated at cost.

Long-term cash investments include certificates of deposit and are stated at cost, which approximates fair value.

Intangibles

Intangible assets deemed to have indefinite lives are stated at the lower of cost or fair value. These assets are subject to periodic impairment tests. Intangible assets with definite lives are amortized.

Property, Plant and Equipment

Telephone plant, wireless plant and other property are capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property as approved by the Board of Directors. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. These estimates are subject to change in the near term.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	20-25 years
Furniture and office equipment	7-10 years
Vehicles and work equipment	5-8 years
Switching equipment	8-10 years
Outside plant	15-25 years
Other plant and equipment	5-15 years

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment (Continued)

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of wireless plant and other property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when wireless plant and other property is sold or retired.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended December 31, 2016 and 2015.

Software

The Company capitalizes software costs (including right-to-use fees) associated with externally acquired software for internal use. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line basis over its useful life, not to exceed five years.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

The Company is organized and operated on a nonprofit basis. However, as more fully explained in Note 5, the Company has provided for income taxes on certain portions of its operations.

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes related to nonpatronage sourced activities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes arise from the effects of deferred investment tax credits, accelerated depreciation on certain assets, intangibles amortized for tax purposes, and income or losses of investees recognized for tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled. Temporary differences related to patronage sourced activities are not expected to offset tax liabilities when the differences are recovered or settled.

State investment tax credits (ITC), which were deferred prior to the Tax Reform Act of 1986, are being amortized over the regulatory life of the plant which produced the ITC.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide telephone service to subscribers within its defined service territory.

Local network service, internet and wireless revenues are recognized over the period a subscriber is connected to the network.

Network access and long distance service revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on a cost separation procedure settlement formula administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. The intrastate portion of access revenues is billed based on an individual company tariff access charge structure approved by the state regulatory authority. The tariffs developed from this structure are used to charge the connecting carrier and recognize revenues in the period the traffic is transported based on the minutes of traffic carried. Long distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at contracted rates.

Reported network access revenues are estimates subject to settlement adjustments in the near term resulting from changes in expense and plant investment levels and rate of return experience.

Other nonregulated service revenues include contractually determined arrangements for E-911 services and revenue from the sale of equipment and are recognized in the period when the services are performed or equipment is sold.

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Company recognizes internet revenue as the total amount earned from charges to customers in the statement of operations as internet services. In accordance with tariffs filed with the FCC by NECA, the Company charges its non-regulated internet operations the tariffed wholesale DSL rate for the use of the Company's regulated plant facilities. These charges in network access services and cost of internet services totaled [REDACTED] and [REDACTED] in 2016 and 2015, respectively.

Security service revenues represent charges for the installation and maintenance of security systems and are recognized in the period in which they are earned.

The Company recognizes taxes charged to customers on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were [REDACTED] and [REDACTED] in 2016 and 2015, respectively.

Patronage Capital

Revenues in excess of costs and expenses are assigned to patrons on a patronage basis in accordance with the Company's bylaws and are represented by patronage capital.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- | | |
|---------|--|
| Level 1 | Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. |

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform with the 2016 presentation.

NOTE 2. INVESTMENTS

Investments consist of the following at December 31:

	December 31,	
	2016	2015
Syringa Networks, LLC		
National Information Solutions Cooperative patronage capital certificates		
National Rural Telecommunications Cooperative patronage capital certificates		
Other		

Because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs, management has determined it is not practical to estimate the fair value of these investments. However, management believes that the carrying amount of these investments at December 31, 2016, included in other investments is not impaired.

NOTE 3. INTANGIBLES

Intangible assets at December 31 consist of the following:

	2016		2015	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
<u>Amortized Intangibles</u>				
Customer lists				

Amortization expense was ■ and ■ for the years ended December 31, 2016 and 2015, respectively.

The Company's future cash flows are not materially impacted by its ability to extend or renew agreements related to its amortizable intangible assets.

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2016	2015
Telephone plant in service:		
Land		
Buildings		
Furniture and office equipment		
Vehicles and work equipment		
Switching equipment		
Outside plant		
Subtotal		
Wireless plant in service:		
Computer equipment and software		
Buildings		
Towers and antenna		
Work equipment		
Switching equipment		
Subtotal		
Other property:		
Internet equipment		
Voice mail equipment		
Other equipment		
Subtotal		
Total property, plant and equipment		

Depreciation on depreciable property resulted in composite rates of [REDACTED] and [REDACTED] for 2016 and 2015, respectively.

NOTE 5. INCOME TAXES

Income taxes reflected in the Consolidated Statements of Operations consist of the following:

	2016	2015
Federal income taxes:		
Deferred tax benefit		
State income taxes:		
Current tax (benefit) expense		
Deferred tax benefit		
Investment tax credit, net		
Total income tax benefit		

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 5. INCOME TAXES (Continued)

Cash paid for income taxes and estimated income taxes for 2016 and 2015 totaled [REDACTED] and [REDACTED] respectively.

Deferred federal and state tax liabilities and assets reflected in the Consolidated Balance Sheets are summarized as follows:

	<u>2016</u>	<u>2015</u>
Deferred Tax Liabilities		
Federal		
State		
Total Deferred Tax Liabilities		
Deferred Tax Assets		
Federal		
State		
Total Deferred Tax Assets		
Less: Valuation Allowance		
Net Deferred Tax Assets		
Net Deferred Tax Assets		
Long-term Portion		

A valuation allowance is required to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of the evidence, both positive and negative, management determined that a valuation allowance of [REDACTED] and [REDACTED] was required at December 31, 2016 and 2015, respectively, to reduce the deferred tax assets to the amount that will more likely than not be realized.

Prepaid income taxes of [REDACTED] appearing on the Consolidated Balance Sheets at December 31, 2016 reflect overpayments of estimated taxes.

Investment tax credits of [REDACTED] are available to reduce future taxable income and/or payments. These credits expire at various times from 2017 through 2029. An allowance has been recorded on a portion of these credits.

The tax provision differs from the expense that would result from applying the federal statutory rates to operations before income taxes because of the amortization of investment credits, and because the Company is permitted to exclude from taxable income margins generated from patronage sourced activities if those margins are appropriately allocated to patrons as capital credits. This excluded income vary from year to year, resulting in fluctuations in the effective tax rate and income expense.

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 5. INCOME TAXES (Continued)

The Company has evaluated its income tax positions and has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2016 and 2015.

The Company's federal income tax returns for years after 2013 remain subject to examination.

NOTE 6. LONG-TERM DEBT

Long-term debt consists of:

	<u>2016</u>	<u>2015</u>
Note payable-Key Bank National Association - [REDACTED]	[REDACTED]	
Line of credit-Key Bank - [REDACTED]		
Less current portion		

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2017	[REDACTED]
2018	
2019	
2020	
2021	

Certain switching and other equipment is pledged as security for the long-term debt under the loan agreement with the Key Bank National Association. The loan is to be repaid in quarterly installments covering principal and interest beginning after date of issue and expiring in 2020.

The security and loan agreements underlying the Key Bank National Association note contains certain restrictions on payments of capital credits refunds or other distributions to members and incurrence of additional debt. In addition, the Company is required to maintain certain cash flow and capital ratios. The Company was in compliance with all covenants at December 31, 2016.

In 2015, the Company entered into an agreement with Key Bank National Association for a line of credit up to [REDACTED]. The initial line of credit is available until July 2017 with [REDACTED] unadvanced at December 31, 2016. This loan will be amortized over 8 years upon expiration of the line of credit.

Cash paid for interest, net of amounts capitalized for 2016 and 2015 totaled [REDACTED] and [REDACTED] respectively.

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 7. EMPLOYEE BENEFITS

The Company has a defined contribution plan covering most employees. Pension costs expensed and capitalized for 2016 and 2015 were [REDACTED] and [REDACTED] respectively. The Company makes contributions to the plan equal to amounts accrued for pension expense.

NOTE 8. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to local service customers, all of whom are located in the franchised service area, as well as internet, long distance and wireless PCS customers and telecommunications intrastate and interstate long distance carriers. The Company is subject to competition for telecommunications services, including telecommunications exchange services, in the franchised area.

The Company received approximately [REDACTED] of its 2016 revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined is currently being modified by regulatory bodies.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company places its cash and cash equivalents in several financial institutions which limits the amount of credit exposure in any one financial institution.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

**FARMERS MUTUAL TELEPHONE COMPANY
FRUITLAND, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 9. REGULATORY MATTERS

The Company received [REDACTED] of its 2016 revenues from access revenues and assistance provided by the Federal Universal Service Fund. The manner in which access revenues and Universal Service funds are determined has been modified in several recent Federal Communications Commission proceedings. Changes include modifications to rate-of-return support including caps on the recovery of certain expenditures and reductions in terminating access charges billed with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers.

On March 30, 2016, the FCC released a Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking to reform USF. The order in this proceeding (1) provides support for standalone broadband; (2) requires broadband deployment based on the number of locations lacking service and cost of providing service; (3) requires allowances for capital investments and further limits operational expenses; and (4) phases out support for area served by qualifying competitors. In addition, the FCC created a new Universal Service Support mechanism named the Alternative Connect America Model (A-CAM). The Order allows eligible rate-of-return carriers to elect A-CAM or remain on a revised version of the legacy rate-of-return funding. Carriers not eligible for the A-CAM will fall under the revised version of the legacy rate-of-return funding. The Order provides a total budget of \$2 billion for Universal Service Support to cover the A-CAM and legacy rate-of-return mechanisms.

The Company was not eligible to elect A-CAM support, and therefore will remain a legacy rate-of-return carrier. The amount of support that will be received is not certain due to constraints on the FCC's budget.

Whether a rate-of-return carrier chooses model-based support or remains on legacy mechanisms, it will be required to meet service obligations, adhere to reporting obligations, and retain records.

NOTE 10. COMMITMENTS

The Company has entered into a purchase commitment with an unrelated third party for buried fiber construction totaling [REDACTED]. It is anticipated this work will be completed in 2017.